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Germany

Dairy and Products

German dairy farmers face \$163 million in superlevies for MY 2004/05

2005

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Report Highlights:

German dairy farmers exceeded their milk quotas by a total of 403,000 MT or 1.4 percent in milk year 2004/05. As a result farmers have to pay superlevies of U.S.\$ 163 million (Euro 134 million) in total.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Berlin [GM1]
[GM]

In milk year 2004/05 (April /March) German dairy farmers exceeded their milk quota by 403,000 MT or 1.4 percent based on adjusted fat content. This is the highest overshoot since the introduction of the quota system in 1984. The German quota for 2004/05 was 27,864,816 MT. The quota for 2005/06 will be at the same level. In the CAP reform, it was agreed that beginning in 2006/07 the quota will be increased in three installments. For Germany the total increase will amount to 417,972 MT.

One reason why farmers overshoot their individual quota is a result of the fact that the actual amount of the fines (superlevy) for overproduction only becomes clear after the end of the milk year. The fines are regulated within the framework of the EU common market organization for milk¹. For the MY 2004/05 the fine is set at 33.27 Euro per 100 kg of milk. However, farmers do not always have to pay the fine for 100 percent of their individual overproduction. If other farmers do not fully use their quota, the unused part is re-allocated. This re-allocation is done first on the dairy level and thereafter on the national level. For example, on the national level in MY2004/05 the total of the individual overproduction after re-allocation of quota on the dairy level amounted to 539,000 MT, while the total of remaining unused quota amounted to 136,000 MT. Superlevies have to be paid only for the difference: 539,000 MT minus 136,000 MT equals 403,000 MT or 75 % of the total overproduction, amounting to U.S. \$ 163 million² (Euro 134 million) in total. Each farmer has to pay the fine of 33.27 Eurocents per kg for 75 percent of his overproduction, which translates into 24.95 Eurocents per kg for every kg of his overshoot. If more farmers had underused their quotas this average fine would have been lower. In MY 2003/04 for instance, the average fine amounted only to 22.1 cents per kg. Despite indications in February/March 2005, that production may exceed the quota, some farmers took a gamble hoping that others would supply less milk and thus reduce the total fine.

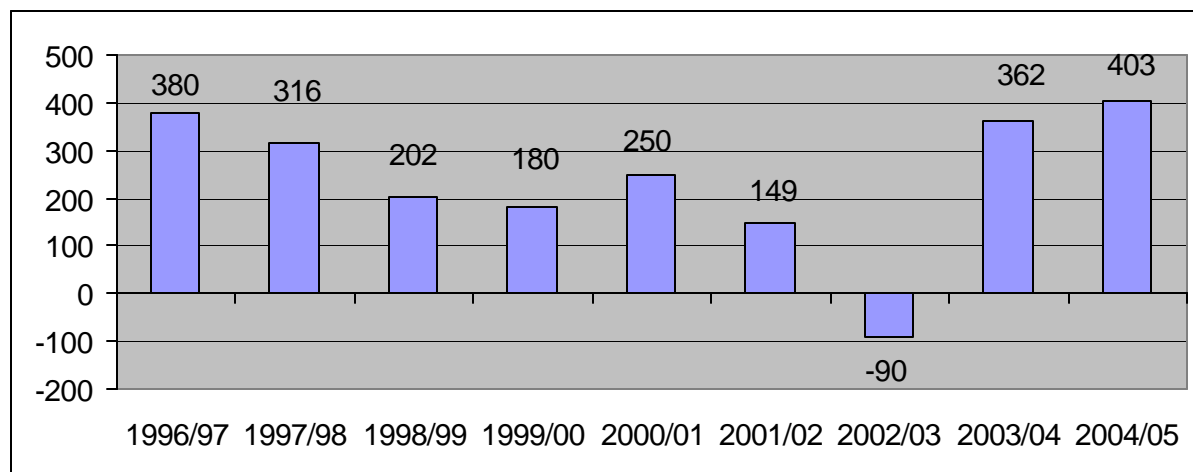
Also, in CY 2004 the milk price averaged between 27.14 and 29.93 Eurocents per kg, depending on the region. This means that with an average fine of 24.95 Eurocents per kg, this still left farmers with roughly a 2 to 5 Eurocents return. This is by far not enough to pay the production costs, but it is still better than throwing away the produced milk.

Another reason is that farmers tend to be attached to their cows. It is not always possible to plan production right on target. If feed quality or the pregnancy rate are better than expected, this might result in higher than planned milk production. But as one farmer put it: "No one kills a healthy cow". They would rather pay the fine and try to purchase additional quota the following year.

In November 2004, Germany registered 113,500 dairy farmers and 4.3 million dairy cows. This compares to 136,000 dairy farmers and 4.5 million dairy cows in November 2000 and 275,000 dairy farmers and 4.8 million cows in November 1990. The decline in cow numbers is due to increased milk production per cow, thus less cows are needed to fill the quota. The decline in dairy farmers is due to economic pressure and restructuring of the sector.

¹ EU regulation 1788/2003 establishing a levy in the milk and milk products sector, OJ L270 pages 123 - 136

² Exchange rate: 1 Euro = 1.2195 U.S. \$, 1 U.S.\$ = 0.82 Euro, as of August 2, 2005

Table 1: Quota overshoot by German Dairy Farmers by year in 1,000 MT

Related reports:

Report number	Title	Date released
GM4024	German dairy farmers exceeded their milk quota by 362,000 MT in milk year 2003/04.	7/7/2005